

## Message Text

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60

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INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07 L-02

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INFO USMISSION EC BRUSSELS

AMCONSUL MILAN

AMCONSUL NAPLES

USNATO 2633

USMISSION OECD PARIS

UNCLAS ROME 5700

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJ: POLITICS AND TAXES - THE "CUMULO DEI REDDITI"

REF.: ROME 5642

1. /SUMMARY./ POLEMICS AMONG POLITICAL PARTIES HAVE BEEN GENERATED RECENTLY AROUND ISSUE OF "CUMULO DEI REDDITI" UNDER DIRECT TAX REFORM INTRODUCED IN ITALY IN JANUARY 1974. NEW LAW REQUIRES THAT INCOME TAX RATES SHALL BE APPLIED TO AGGREGATE NET INCOME, INCLUDING INCOME OF WIFE. THIS RESULTS IN HIGHER TAX THAN IF HUSBAND AND WIFE COULD FILE SEPARATELY. ALLEGED INEQUITY OF THIS SYSTEM AND CLAIMED URGENT NEED TO CHANGE LAW BEFORE APRIL 30 FILING DEADLINE HAVE BEEN SEIZED UPON AS ELECTION ISSUE BY CHRISTIAN DEMOCRATS AND OTHER PATIES. IN CONTRAST, REPUBLICAN MINISTER OF FINANCE CLAIMS THAT THERE IS INSUFFICIENT TIME TO CORRECT SITUATION BEFORE END-APRIL FILING DEADLINE. /END SUMMARY./

2. UNDER REQUIREMENTS OF INCOME TAX LAW WHICH WENT INTO EFFECT ON JANUARY 1, 1974, AGGREGATE INCOME FOR TAX PURPOSES COVERS ALL TYPES OF INCOME, INCLUDING INCOME OF WIFE, OF MINOR  
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CHILDREN LIVING WITH TAXPAYER AND OF OTHER PERSONS WHOSE INCOME

TAXPAYER HAS RIGHT TO DISPOSE OF OR TO MANAGE WITHOUT OBLIGATION TO RENDER AN ACCOUNTING. CONCEPT OF ACCUMULATION OF HUSBAND'S AND WIFE'S INCOME IS NOT COMPLETELY NEW. HOWEVER, FORMERLY IT ONLY APPLIED IN CASE OF PART OF WAGE INCOME. INTERPREGATION OF REQUIREMENT TO FILE COMBINED INCOME DECLARATION RAISES POSSIBLE CONFLICT WITH CONSTITUTIONAL RIGHTS. FOR EXAMPLE, TAX LAW SEEMS TO IMPLY OBLIGATION OF SPOUSE OR OF CHILDREN WITH OWN INCOME TO PLACE SAID INCOME AT DISPOSAL OF HEAD OF HOUSEHOLD (TAXPAYER). TAX LAW IS BEING CHALLENGED IN LEGAL CIRCLES AS BEING AT VARIANCE WITH SEVERAL PROVISIONS OF CONSTITUTION, PARTICULARLY ARTICLE 31, WHICH PROVIDES THAT ITALIAN REPUBLIC SHALL FACILITATE FORMATION AND FUNCTION OF FAMILY UNIT WITH APPROPRIATE ECONOMIC AND OTHER MEASURES. TAX LAW ALSO CLAIMED TO BE AT VARIANCE WITH ARTICLES 37 AND 53 OF CONSTITUTION WHICH GUARANTEES EQUALITY OF TREATMENT FOR WORKERS AND ASSURE PROGRESSIVITY OF INCOME TAX RATES BASED ON TAXPAYER'S ABILITY TO PAY. EARLIER TEST OF CONSTITUTIONALITY OF TAX LAW HAD BEEN REJECTED BY CONSTITUTIONAL COURT ON PURELY PROCEDURAL GROUNDS.

3. ASIDE FROM CONSTITUTIONAL ISSUES INVOLVED, TAX LAW HAS IMMEDIATE EFFECT OF RAISING TAX INCIDENCE ON LOW INCOME EARNERS. FOR EXAMPLE, THREE WAGE EARNERS IN SAME HOUSEHOLD EARNING 4 MILLION, 3 MILLION, AND 2 MILLION LIRE RESPECTIVELY (TOTAL INCOME FOR TAX PURPOSES OF 9 MILLION LIRE), IF FILING SEPARATELY WOULD EACH PAY TAXES OF 450,000, 330,000 AND 300,000 LIRE RESPECTIVELY WITH TOTAL TAXES AMOUNTING TO 1.1 MILLION LIRE. UNDER ACCUMULATED INCOME CONCEPT, RESPECTIVE INCOMES WOULD BE COMBINED FOR TAX PURPOSES WITH RESULT THAT TAX DUE BY SINGLE TAXPAYER ON COMBINED INCOME WOULD TOTAL ABOUT 1.7 MILLION LIRE.

4. POLITICAL ISSUE HAS ARISEN FROM FACT THAT CHRISTIAN DEMOCRATIC PARTY IS PUSHING HARD FOR IMMEDIATE TAX RELIEF FOR TAXPAYERS ON 1974 INCOME, WHILE REPUBLICAN FINANCE MINISTER VISENTINI, WITH SOME BACKING FROM REPUBLICAN PARTY, OPPOSES QUICK CHANGES IN TAX LAW. VISENTINI'S POSITION IS THAT END-APRIL TAX FILING DATE IS TOO NEAR AT HAND TO PERMIT SOLUTION OF PROBLEM. WHILE HE DOES NOT EXCLUDE EVENTUAL REMEDIAL ACTION, HE POINTS OUT THAT FURTHER DELAY OF FILING DATE MIGHT CONFUSE TAXPAYERS AND INTERFERE WITH TAX COLLECTIONS. INSTEAD, HE PROPOSES TO SEEK CHANGES IN TAX LAW AT LATER DATE UNDER TAX

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PACKAGE DESIGNED TO CORRECT VARIOUS OTHER IMPERFECTIONS IN NEW TAX LAW.

5. /COMMENT:/ WITH REGIONAL ELECTIONS SCHEDULED FOR MID-JUNE, ANOMALIES OF NEW TAX LEGISLATION HAVE BECOME POLITICAL ISSUE WITH CHRISTIAN DEMOCRATIC PARTY BEING ACCUSED OF TRYING TO MAKE PRE-ELECTION POLITICAL PLAY WITH ELECTORATE. CHANCES APPEAR FAIRLY GOOD THAT STOP-GAP COMPROMISE MAY BE REACHED, POSSIBLY BEFORE

APRIL 30 DEADLINE, BY LOWERING TAX REATES BY 10 PERCENT, OR  
BY SOME OTHER DEVICE. HOWEVER, ISSUE MAY BE COMPLICATED BY  
POSSIBLE STRIKE BY TAX PERSONNEL ON APRIL 28-30 WHICH MAY IN  
ANY CASE FORCE GOI TO GRANT ADDITIONAL ONE-MONTH DELAY IN FILING OF  
TAX DECLARATIONS. SHOULD THIS OCCUR, PRESSURE FROM DC FOR  
PERMANENT TAX SOLUTION WOULD MOUNT SINCE ONE-MONTH DELAY MIGHT  
OFFER SUFFICIENT TIME TO PERMIT PASSAGE BY PARLIAMENT OF NECESSARY  
CORRECTIVE LEGISLATION.BEAUDRY

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